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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

The Stock Market Crash Dims New York City's Prospects

More than three months after the stock market crash of October 19, 1987, many New Yorkers are still nervously assessing its impact on the local economy. While there remains some debate regarding the effects of the stock market decline on the national economy, one thing is almost certain—New York City will feel the effects of the market's plunge to a greater extent than the rest of the U.S. This is because nearly half of the total U.S. brokerage firms' employment is located in New York City and the boom in the securities industry has driven the city's growth in the 1980s, accounting for one out of every four new jobs generated in the city's private sector in that period.

Since October 19, New Yorkers have become more aware than ever that the city's economic well-being is closely tied to the stock market's performance. Black Monday underscored the vulnerability of the city's heavy reliance on the volatile financial industry. The market crash and its aftershocks have already inflicted serious damage to New York's economy, as evidenced by the widespread actions taken by brokerage firms and commercial banks to slash their payrolls. Estimates of the decline in employment in the financial sector as a direct result of the stock price debacle range from about 10,000 to as many as 40,000 persons.

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The income loss resulting from the layoffs in these institutions will have a disproportionately higher negative impact on the area's economy because compensation for brokerage and banking employees is, on average, higher than in other industries. Compensation in the securities industry averages about $65,000 annually and about $33,000 in commercial banking compared with $24,000 in the nonfinancial sectors.

The First Casualty Is The Financial Sector

What's more, the retrenchment in the financial industry will spill over into other sectors. It is generally believed that each job lost in the financial sector will be matched by another job and a half in such downstream industries as advertising, retailing, and real estate. As a result, New York City's job count will likely decline this year—the first annual drop since 1982. Thus, income growth will be more subdued, upscale retailers may be negatively affected, and home prices will soften. Slower economic activity, in turn, will affect New York City's revenues, particularly those generated from the economically sensitive sales, personal income, corporate and unincorporated business taxes. Not surprisingly, New York City has already moved to shore up its finances: A 90-day hiring freeze has been imposed in anticipation of a revenue dip.

The ongoing retrenchment in the financial sector and related industries will have particular impact on real estate. Whatever the actual number of lost jobs turns out to be, already some effects are apparent. In the fourth quarter of last year, prime office space vacancy rates climbed in the Wall Street area from 10.5 percent at the end of the third quarter to 11 percent. In the midtown Manhattan area, vacancy rates rose a whopping 1.6 percentage points from 7.6 percent to 9.2 percent in the same period. In the downtown area, leasing activity plunged from over 1.7 million square feet in the third quarter, to less than 1.3 million square feet in the fourth quarter. And, if "only" 40,000 people lose their jobs, then at least six million square feet of unused office space will be added to the 24 million vacant footage believed to already exist—an increase of one-fourth.

While the stock market crash has clouded the outlook for New York City's economy, it is too soon for the available data to reveal its impact on the city's total employment picture. Last year New York's economy continued to charge ahead, generating almost 50,000 new jobs in the 12 months ending November 1987, 6,500 more than in the immediately preceding 12-month period. Employment gains, however, were confined

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to the nonmanufacturing sectors while the shakeout in manufacturing employment continued, although at a slower pace than in 1986. The loss of factory jobs slowed to 5,900 in the latest 12 months compared with a decline of 17,000 a year earlier.

The Rest Of The Economy Is Unscathed

In the nonmanufacturing sector, growth was once again fueled by the financial and service industries which, while accounting for about half of total nonmanufacturing employment, contributed 86 percent of all new jobs since November 1986. The service sector—the largest single source of employment in the city—added almost 32,000 new jobs to its payrolls. As a result, the service job count climbed to an all-time high of over 1.1 million November 1987.

The finance, insurance, and real estate sector increased its employment by 16,000, with securities firms contributing almost 15,000 of these new jobs. Banking employment, on the other hand, shrank by 3,600 positions. While the construction sector gained more

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/88)	183,302	+ 748	+ 17,419
New York City (1/20/88)	37,529	– 711	+ 1,472
Commercial Paper (1/20/88)	376,455	– 1,146	+ 39,875

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/88)	288,659	– 2,457	– 6,791
New York City (1/20/88)	56,687	– 571	– 8,109

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/88)	860,466	– 4,589	+17,712
New York City (1/20/88)	173,215	+ 1,609	–31,096

Financial Markets

	Friday 1/29/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.80%	– .17	+ .07
180-Day Bills†	6.29	– .18	+ 49
Longest Bills†	6.63	– .17	+ .74
Recent Issues:			
7 3/8S 1/31/90 (When Issued)	7.19	NA	
8 1/4S 12/31/91	7.62	– .23	
8 7/8S 11/15/97	8.25	– .22	
8 7/8S 8/15/17	8.42	– .23	
Municipals:			
Bond Buyer–20 Bond Index* (1/28/88)	7.51%	– .10	+ .95
Blue List Total ($ Million)	$1,006	+ $102	–$ 637
30-Day Visible Supply ($ Million)	$2,271	+ $620	–$1,021
Total	$3,277	+ $722	–$1,658
Corporates:			
Moody's Aa Composite (1/28/88)	9.85%	– .23	– 1.01
30-Day Visible Supply ($ Million)	$ 750	– $445	–$1,897
Stocks:			
Dow-Jones Averages:			
Industrials	1,958.22	+ 54.71	– 199.82
Transportation	764.29	+ 21.43	– 110.59
Utilities	190.02	+ 7.77	– 34.70
65 Stocks	731.40	+ 21.94	– 90.77
N.Y.S.E. Composite Index	144.13	+ 5.44	– 11.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	193,660	+ 38,802	+ 14,418

*34% Taxable equivalent 11.38%. † Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/29/88	Week Ago
Overnight	6.50%	6.44%
1 month	6.69	6.81
3 month	6.81	7.05
6 month	6.88	7.19
1 year	7.25	7.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/29/88)	Currency Per U.S. $	Week Ago
Canada	1.2763	1.2800
France	5.5640	5.6330
Germany	1.6777	1.6710
Italy	1235.50	1229.25
Japan	127.98	127.80
Mexico	2211.00	2208.00
Switzerland	1.3675	1.3569
U.K.*	1.7695	1.7822

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/29/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/8
	+0.2%	–5.9%

than 5,000 workers, its rate of job creation was only half of the previous year's. So too, the job gain in the local government was reduced to a trickle: the city government added only 2,200 jobs in the 12 months ending November 1987 compared with an average gain of about 12,000 new jobs a year since 1982. However, with almost 449,000 people working in city government, its employment is at a near-record level, approaching the peak reached during New York's fiscal crisis of the mid-70s. The city government is the second largest single employer.

The course of New York's economy in 1988 will depend on whether or not the stock market continues to falter, consumer spending is significantly curtailed and the nation as a whole experiences a recession. But while leaner times lie ahead, New York City's economic base remains fundamentally sound and its performance will unlikely be a re-run of the mid-1970s. Then, in the midst of another stock market slump, high inflation rates, widespread corporate defections, commercial and residential over-building and fiscal problems magnified the severity and duration of the city's economic downturn. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/27/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	227.116	+ .848	+15.342
Loans to Depository Inst.	.422	– .171	– .557
Float	1.508	– .391	– 2.816
Total Reserve Bank Credit	244.822	+ .264	+10.621
Treasury Deposits with Federal Reserve Banks	8.941	+ 3.420	– 7.912
Currency in Circulation	224.244	– 1.734	+18.325
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	210.231	+ 4.998	+46.625
	1/27/88		
Member Bank Reserves:			
Total Reserves Held	59.449	– 2.223	+ 2.222
Excess (Deficiency)	1.362	+ .061	+ .156
Net Free Reserves	1.186	+ 1.345	+ .442

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (1/18/88)	761.5	+ 0.8‡	+ 2.5‡
M2 (December '87)	2,895.6	+ 2.8	+ 3.4
M3 (December '87)	3,662.3	+ 4.5	+ 4.8
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 1/29/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.67%	6.03%	6.25%
* Federal Agencies	6.40	6.45	6.65
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.44	6.82	7.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.70	6.77	7.12

‡Finance Company Paper—Prime

5- 14 days	6.55%
15- 29 days	6.55
30- 59 days	6.60
60- 89 days	6.63
90-179 days	6.63
180-239 days	6.63
240-270 days	6.63

‡* Bankers' Acceptances

Feb	6.50%
Mar	6.55
Apr	6.55
May	6.55
Jun	6.55
Jul	6.55

‡Industrial Paper—Prime

30- 89 days	6.63%
90-120 days	6.65

†Federal Funds Effective Rate 6.75%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87n	$ 4,598	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87n	$ 3,875	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87n	4.2	4.3	1.5
Change in Consumer Prices*	Dec '87n	1.2%	3.6%	2.4%
Change in Producer Prices*	Dec '87	– 3.6%	0.0%	1.2%
Civilian Employment (Thousands of Persons)†	Dec '87	113,744	113,504	110,657
Unemployment as % of Civilian Labor Force†	Dec '87	5.8%	5.9%	6.7%
Personal Income*	Dec '87n	$ 3,865	$ 3,836r	$ 3,613
Leading Indicators Composite Index (1967=100)†	Nov '87	190.2	193.5	182.7
Industrial Production Index (1977=100) †	Dec '87	133.3	133.1	126.9
Net Change in Consumer Installment Credit †	Nov '87	$ 2.22	$ 2.88	$ 0.78
U.S. Merchandise Trade Balance	Nov '87	–$ 13.22	–$ 17.63	–$ 19.22
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$372.24
Private Housing Starts (Thousands of Units)*	Dec '87n	1,374	1,639r	1,813
New Construction Expenditures*	Nov '87	$ 419.5	$ 410.6	$ 390.7
Total Business Inventories †	Nov '87	$ 695.5	$ 689.9	$ 655.3
Total Business Sales †	Nov '87	$ 461.4	$ 462.4	$ 429.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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The Real Estate Group

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